

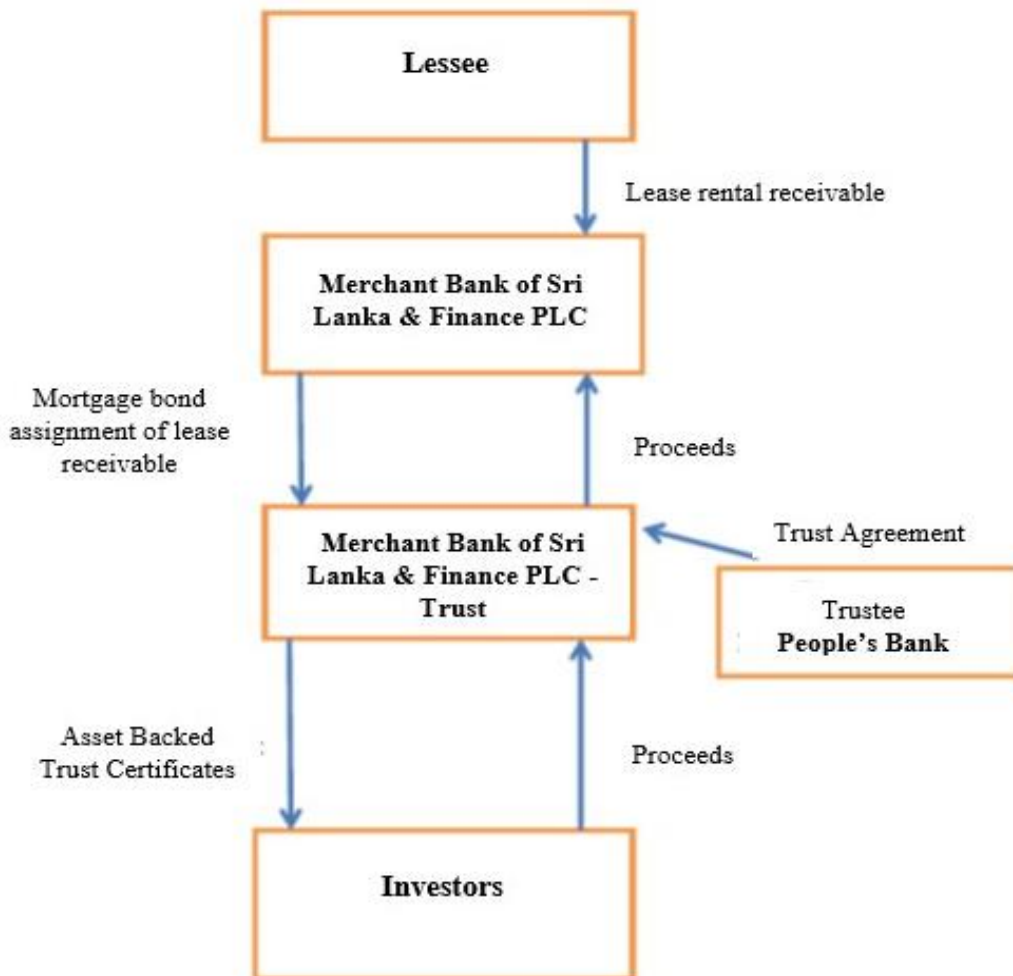
ICRA Lanka assigns provisional [SL]A+(SO) rating to the proposed Trust Certificates programme of Merchant Bank of Sri Lanka and Finance PLC - Trust 01

July 12, 2017

Instrument	Amount	Rating Action
Proposed Trust Certificates	LKR 2,000 Mn	Provisional [SL]A+(SO) with Stable outlook; assigned

ICRA Lanka Limited, subsidiary of ICRA Limited, group company of Moody's Investors Service, has assigned the Provisional [SL]A+(SO) (pronounced SL A plus Structured Obligation) rating with stable outlook to the proposed LKR 2,000 Mn Trust Certificates. The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. The SO rating does not represent ICRA Lanka's opinion on the general credit quality of the issuer concerned. ICRA Lanka has an issuer rating of [SL]A (pronounced SL A) with stable outlook for Merchant Bank of Sri Lanka and Finance PLC (MBSL). Please refer to ICRA Lanka Rationale dated July 11, 2017 on the issuer for more details on the issuer.

Structure of the transaction



The rating for the Trust Certificates is based on the strength of senior secured debt with an exclusive charge over receivables and a receivable cover of 130%. MBSL would create a Trust by executing a Trust Deed and Peoples Bank would be the Trustee. MBSL would execute a Mortgage Bond in favour of the Trust thereby creating charge in favour of the Trust over a pool of identified Finance Lease Agreements' receivables that it has originated. The certificates issued by the Trust will have a predetermined interest rate and principal repayment schedule. Principal and Interest repayment on the loan (given by Trust to MBSL) would be designed in a manner whereby aggregate receivables during the month from underlying contracts will be 130% or more over repayment on the certificates. Entire receivables collected by MBSL from underlying contracts will be deposited in an escrow account, two days prior to the repayment dates. In the event of a shortfall in any month, MBSL will deposit the requisite amount in escrow upon a demand being made by the Trustee. In case of any event of default, Trustee can enforce the charge over the underlying contracts and sell the vehicles to recover due amounts including capital plus any accrued interest.

Issue Details:

The key issue details are summarised in the table below.

Nature of Instrument	Trust Certificates issued by Merchant Bank of Sri Lanka & Finance Plc - Trust 01
Company / Originator	Merchant Bank of Sri Lanka & Finance Plc
Issuer	Merchant Bank of Sri Lanka & Finance Plc - Trust 01 will issue LKR 2,000 Mn Trust Certificates
Trustee	Peoples Bank
Tenor	3 years
Repayment:	Monthly
Interest	To be paid monthly at a predetermined rate
Receivables	Company would create charge in favour of the Trust over a pool of identified Finance Lease Agreements' receivables (to the extent of 130% of the issue size) that it has originated.
Structure	<ul style="list-style-type: none"> Trust Certificates issued by the Trust will have a predetermined interest rate and principal repayment schedule. All collections in respect of the collateral pool shall be deposited by the Company in the Trust account, at least two days prior to any payment date. In the event of a shortfall, the Company shall deposit the requisite amount in the Trust Account upon a demand being made by the Trustee. Top-up of collateral shall be done on a monthly basis. Top up would be carried out in such a manner that the amount due to be received from the obligors in the collateral pool (excluding dues in respect of contracts overdue by more than 60 days) is minimum of 130% over the amount due to be paid to the certificate investors on any scheduled pay out date.
Refund of excess funds	Amounts received by the Trustee, which are in excess of the amount necessary to settle the Investors in any given month will be refunded to the Company on the working day immediately after the date on which such settlement is made
Compliance:	Issuer shall ensure that all the terms & conditions of the transaction structure, as stated herein are complied with, within 90 days from the deemed date of allotment. Issuer shall send the final draft version of the transaction documents to ICRA Lanka at least two working days prior to their execution. Once the transaction documents are executed, the Trustee shall confirm to ICRA Lanka about the same.

Company Profile

MBSL was established in 1982 as a merchant bank. The Company had two subsidiaries, MBSL Savings Bank Ltd (MSB, Licensed Specialised Bank) and MBSL Insurance Company (Composite Insurer) and two associate companies, Lanka Securities (Pvt) Ltd (registered stockbroker) and MCSL Financial Services Ltd (a licensed finance company). Pursuant to the Master Plan on Consolidation of the Financial Sector proposed by the Central Bank of Sri Lanka (CBSL), in January 2015, MBSL Savings Bank Limited (MSB) and MCSL Financial Services Limited (MCSL) was merged with MBSL. MBSL offers leasing & HP, long and short term loans, microfinance and pawning to its clients. The company has 49 branches and employs more than 900 staff members.

MBSL Insurance Company Limited (MBSI) is 84% owned subsidiary of MBSL. The company offers life and general insurance products to its customers. MBSI has close to 50 branches and window offices covering Sri Lanka.

For the Q1CY2017, MBSL reported a PAT of LKR 50 Mn (CY2016: LKR 86 Mn) with a total asset base of LKR 33,158 Mn on March 31, 2017 (LKR 31,934 Mn in December 31, 2016). The company operated with a net worth of LKR 3,158 Mn and a gearing of 9.21 on March 31, 2017.

MBSL group reported a PAT of LKR 42 Mn for the Q1CY2017 (CY2016: LKR 81 Mn) with a total asset base of LKR 34,856 Mn in March 31, 2017 (LKR 33,641 Mn in December 31, 2016). The group operated with a net worth of LKR 3,170 Mn and a gearing of 9.18 on March 31, 2017.

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